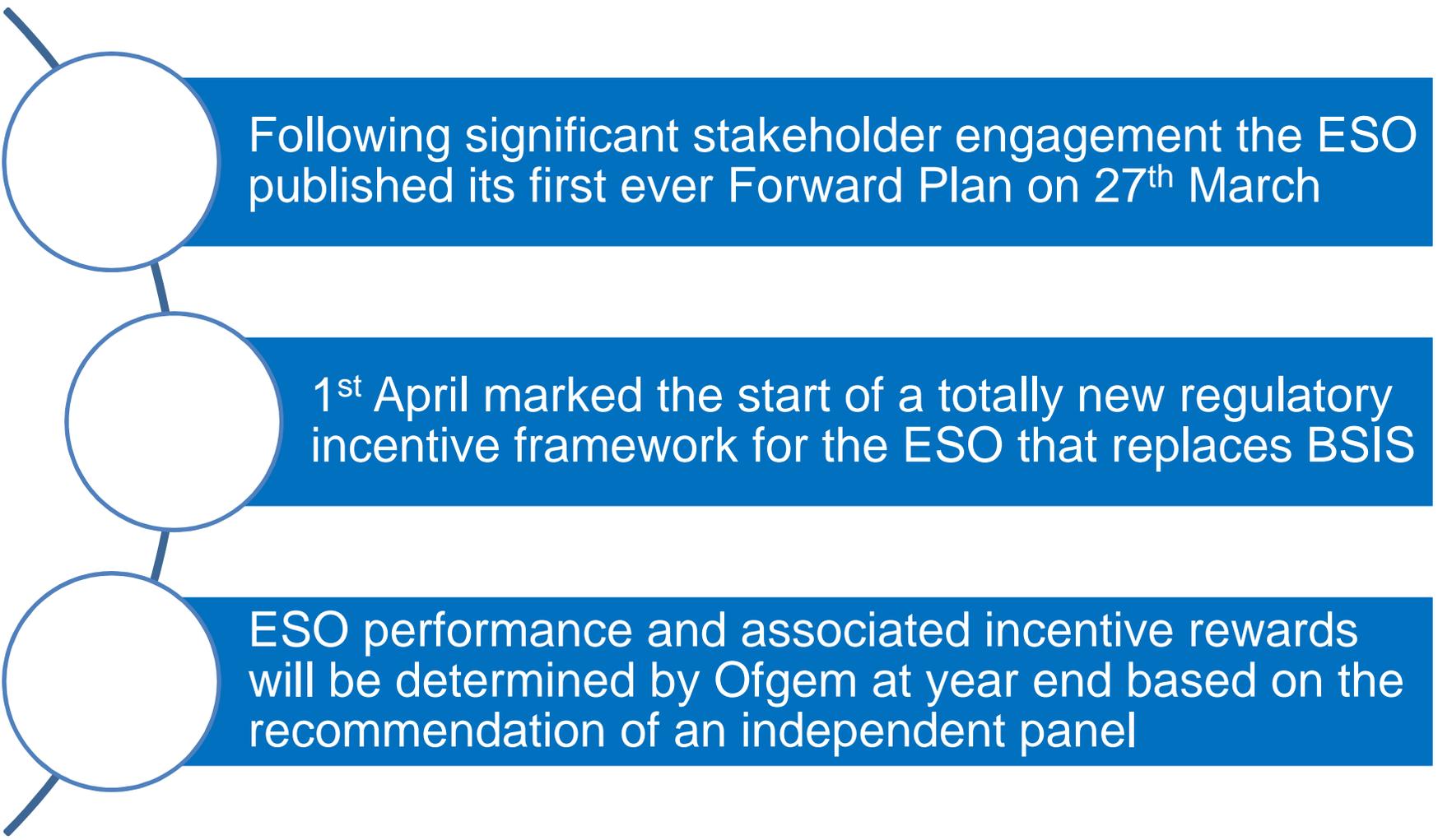


ESO Incentives and Forward Plan



A new regulatory framework for the Electricity System Operator

nationalgrid



Following significant stakeholder engagement the ESO published its first ever Forward Plan on 27th March

1st April marked the start of a totally new regulatory incentive framework for the ESO that replaces BSIS

ESO performance and associated incentive rewards will be determined by Ofgem at year end based on the recommendation of an independent panel

Recap of new scheme

ofgem
This year



Ofgem / Panel reviews ESO Plan to ensure it is comprehensive, challenging and reflective of stakeholder views



1) Establish ESO Forward Plan, deliverables and Performance Metrics



Panel: Mid year review to provide feedback to ESO



2) Monitor performance throughout the year



4) Decision on financial payment / penalty (by Ofgem)

ofgem

GEMA makes decision on financial payment/ penalty. For 2018/19 we propose a max cap/floor of **±£30m**



3) Final performance evaluation



Panel: evaluates ESO performance for each principle, based on clear ex-ante criteria

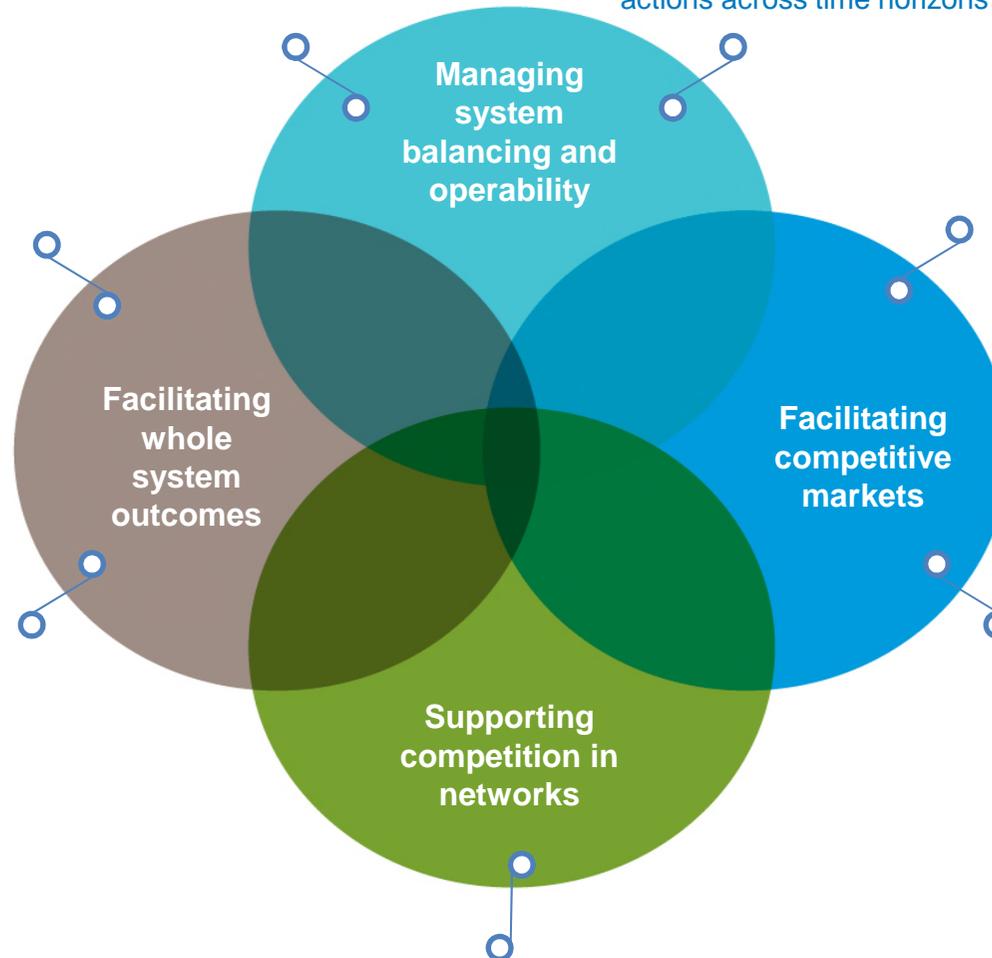
Our roles and principles

Principle 1: Support market participants to make informed decisions by providing user friendly, comprehensive and accurate information

Principle 2: Drive overall efficiency and transparency in balancing services, taking into account impacts of ESO actions across time horizons

Principle 5: Coordinate across system boundaries to deliver efficient network planning and development

Principle 3: Ensure the rules and processes for procuring balancing services, maximise competition where possible and are simple, fair and transparent

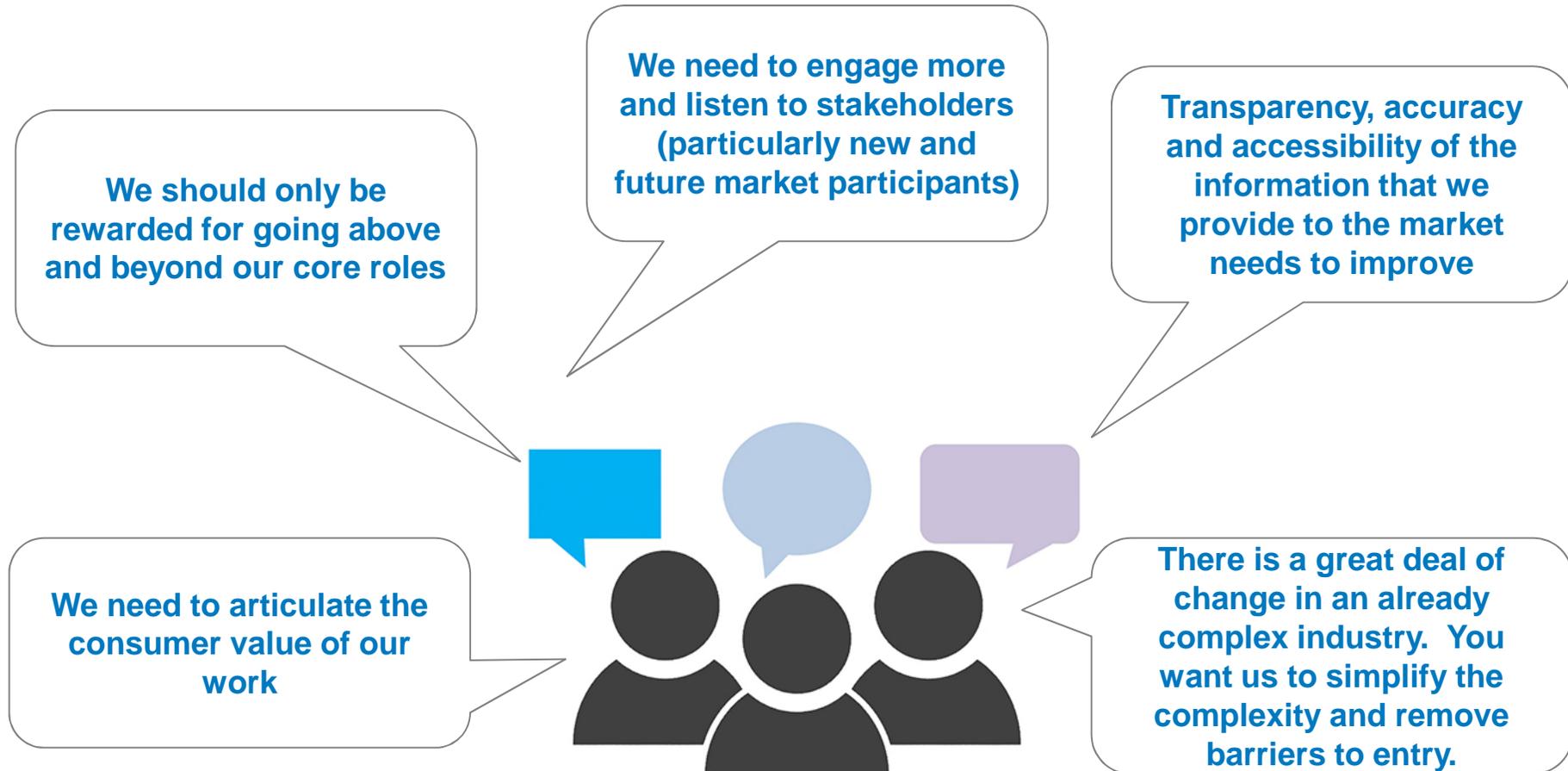


Principle 6: Coordinate effectively to ensure efficient whole system operation and optimal use of resources

Principle 4: Promote competition in the wholesale and capacity markets

Principle 7: Facilitate timely, efficient and competitive network investments

What have our stakeholders told us?



The ESO Forward Plan sets out our ambitions for FY 18/19 and beyond

Our Performance will be measured against the plan

Long term vision

- Wide range of solutions to investment and balancing challenges
- Greater accessibility for participants in industry governance and change
- ESO playing its part in helping businesses to operate efficiently

Delivery

- Defined activities in under each principle for 2018/19 to drive us towards delivery of our long term vision

Performance

- Evidence of delivered benefits
- Evidence of future benefits / progress against longer term initiatives
- Stakeholder views
- Plan delivery
- Outturn Performance metrics and justifications

Ofgem, the Panel & Stakeholders will evaluate our delivery of the Forward Plan against these 5 Criteria

Next steps

- First monthly report May 2018
- First quarterly performance report July 2018
- First Mid-year review – October 2018
- Ongoing engagement through multiple existing and new channels to gather feedback on priorities, performance and engagement approach
- Keen to understand how best to engage with you
- Stakeholder views inform Performance Panel evaluation